

## Message Text

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TO AMEMBASSY ALGIERS PRIORITY

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MANILA MEXICO MONTEVIDEO OSLO OUAGADOUGOU PARIS

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TEHRAN TOKYO WELLINGTON INFO NATO OECD PARIS USUN NEW YORK

APR 13

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MANILA FOR USADB

E. O. 11652: NAV

TAGS: EAID, EFIN

SUBJECT: WORLD BANK IMF SALARY ADJUSTMENTS

REF: STATE 74969 STATE 252040

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1. EMBASSIES REQUESTED FORWARD TO HOST GOVERNMENT GOVERNORS OF  
IBRD AND IMF LETTER FROM TREASURY SECRETARY SIMON CONTAINED IN  
PARA 7 BELOW. IN ADDITION PLEASE CONVEY TO APPROPRIATE HOST  
GOVERNMENT OFFICIALS USG VIEWS EXPRESSED IN PARAS 2 THROUGH 6

BELOW ON IBRD/IMF SALARY INCREASE SCHEDULED FOR PRELIMINARY EXECUTIVE BOARD CONSIDERATION IN LATE APRIL. IF SUPPORT FOR US POSITION INDICATED, HOST GOVERNMENT OFFICIALS SHOULD BE URGED TO COMMUNICATE WITH THEIR EXECUTIVE DIRECTORS AT BANK FUND HEADQUARTERS ASAP AS ISSUE TO BE DISCUSSED AT LEAST INITIALLY APR 17 IN IMF AND APR 22 IN BANK.

2. BANK FUND MANAGEMENT HAVE TENTATIVELY RECOMMENDED SUBSTANTIAL SALARY INCREASE BASED ON (1) WASHINGTON COST-OF-LIVING RISE OF 9.7 PERCENT, (2) ALLEGED NEED TO REMAIN COMPETITIVE WITH UN, OECD, AND EC AGENCIES, AND (3) DESIRE TO INCREASE REAL INCOME OF EMPLOYEES BY INCREASE BEYOND COL RISE. SPECIFICALLY BANK MANAGEMENT REQUESTS 9.7 PERCENT INCREASE AND FUND A 12.7 PERCENT ADJUSTMENT INCLUDING 3 PERCENT STANDARD-OF-LIVING INCREASE. USG CONCERN IS THAT EXCESSIVE IFI SALARIES ARE ERODING LEGISLATIVE CONFIDENCE IN AND SUPPORT FOR THESE INSTITUTIONS IN MEMBER COUNTRIES. IN US, APPROPRIATION ACTION FOR ALL IFIS, PARTICULARLY FOR THE INTERNATIONAL DEVELOPMENT ASSOCIATION MAY BE AFFECTED. THIS DANGER IS INTENSIFIED THIS YEAR BY CURRENT DOMESTIC ECONOMIC SITUATION AND RECENT CONGRESSIONAL INQUIRIES INTO IFI SALARIES. SALARY RANGES PUBLISHED WITHIN LAST MONTH WITH NEGATIVE COMMENTS IN SENATE APPROPRIATIONS COMMITTEE REPORT AND GAO HAS BEEN REQUESTED BY HOUSE COMMITTEE TO INVESTIGATE IFI COMPENSATION.

3. SALARY COMPETITION BETWEEN IBRD, IMF, OECD, NATO, UN AND OTHER INTERNATIONAL ORGANIZATIONS IN A CLOSED SYSTEM IS LEADING TO A SPIRAL EFFECT WHICH MAY PROVE SELF-DEFEATING WHEN ORGANIZATIONS REQUEST FINANCIAL SUPPORT. DURING PERIOD WHEN REAL INCOMES OUTSIDE OF OPEC COUNTRIES ARE DECLINING OR AT BEST GROWING ONLY SLOWLY USG CANNOT DEFEND FURTHER LARGE INCREASES TO ALREADY VERY HIGHLY PAID PROFESSIONAL STAFFS. (FYI, IN IBRD--AN INSTITUTION DEDICATED TO THE POOR--OVER 40 PERCENT PROFESSIONAL STAFF SALARIES EXCEED US GS MAXIMUM OF \$36,000. END FYI). GENERAL DECLINE IN CONGRESSIONAL SUPPORT FOR FOREIGN AID COULD BE EXACERBATED BY EMOTIONAL ISSUE OF OVER-COMPENSATION TO THE SERIOUS DETRIMENT OF IFIS AND THEIR RECIPIENT COUNTRIES. (FYI. REFTELS WHICH ALL POSTS MAY NOT HAVE RECEIVED LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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DETAIL USG EFFORTS TO RESTRAIN SALARY INCREASES IN THE OECD AND NATO. END FYI).

4. USG SEEKS SUPPORT FOR A FREEZE ON ALL SALARIES ABOVE \$30,000 NET (ABOUT \$47,000 GROSS) AND TAPERED INCREASE FOR REMAINDER OF STAFFS NOT TO EXCEED 5 PERCENT ON AVERAGE. WE ARE ALSO SEEKING A FREEZE ON ED AND ALTERNATE EDS AT PRESENT LEVELS. (FYI. USG WOULD NOT VOTE FOR, BUT WOULD ATTEMPT TO DEFEND IN CONGRESS, ANY INCREASE UP TO 6 PERCENT OVERALL WITH A FREEZE ABOVE \$33,000 NET-OF-TAXES. END FYI).

5. USG CONSIDERS BANK FUND SALARIES SHOULD BEAR PROPER

RELATIONSHIP TO THOSE OF MEMBER COUNTRY GOVERNMENTAL SALARIES. BANK FUND SURVEY DATA CLEARLY SHOW SUBSTANTIAL BANK FUND PREMIUM OF 5 TO 45 PERCENT OVER SELECTED FRENCH, GERMAN, UK, AND US NATIONAL AGENCY LEVELS EVEN WITHOUT ANY INCREASE.

6. IN OUR VIEW BANK FUND FAILED TO DEMONSTRATE PRESSING NEED FOR SUBSTANTIAL SALARY INCREASE. VOLUNTARY TURNOVER RATES IN 1974 WERE A VERY LOW 4.2 PERCENT IN IBRD AND 4.3 PERCENT IN IMF. ALSO IN FY 74 IBRD RECEIVED OVER 10,000 APPLICATIONS FOR ROUGHLY 300 PROFESSIONAL STAFF VACANIES.

7. BEGIN UNCLASSIFIED. LETTER FOR TRANSMITTAL TO HOST GOVERNMENT IBRD/IMF GOVERNORS READS AS FOLLOWS: QUOTE

DEAR MR. GOVERNOR:

I AM WRITING TO YOU IN YOUR CAPACITY AS GOVERNOR FOR (HOST GOVERNMENT) TO EXPRESS MY GOVERNMENT'S SERIOUS CONCERN ABOUT THE PROPOSALS FOR LARGE SALARY INCREASES IN THE WORLD BANK AND THE INTERNATIONAL MONETARY FUND. I AM FEARFUL THAT THE PROPOSED COMPENSATION INCREASES WILL UNDERMINE PUBLIC AND LEGISLATIVE SUPPORT FOR THESE INSTITUTIONS IN MEMBER COUNTRIES AND I URGE YOUR GOVERNMENT, THROUGH ITS REPRESENTATIVES ON THE RESPECTIVE BOARDS OF DIRECTORS, TO JOIN THE UNITED STATES IN SEEKING TO EXERCISE A GREATER DEGREE OF RESTRAINT IN THE UPCOMING COMPENSATION ADJUSTMENTS.

THD ALARY ISSUE HAS GRAVE IMPLICATIONS THAT TRANSCEND THE IMMEDIATE COMPENSATION QUESTION. AT A TIME OF WORLDWIDE LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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ECONOMIC DIFFICULTIES IT IS ESPECIALLY IMPORTANT THAT PUBLICLY FINANCED ORGANIZATIONS REFLECT AN APPROPRIATE SENSE OF AUSTERITY. FOR THE IMF AND THE WORLD BANK NOW TO GIVE LARGE SALARY INCREASES, PARTICULARLY AT THE HIGHER LEVELS, WOULD BE MOST UNTIMELY. DURING THE NEXT YEAR MEMBER GOVERNMENTS IN ALL LIKELIHOOD WILL BE ASKING THEIR LEGISLATURES TO APPROVE SUBSTANTIAL QUOTA INCREASES AND TO CONCUR IN CHANGES IN THE IMF ARTICLES. IN ADDITION, CONTRIBUTIONS TO THE IDA AND OTHER INTERNATIONAL DEVELOPMENT INSTITUTIONS REQUIRE PARLIAMENTARY APPROVAL. WITH MANY OF OUR ECONOMIES FACING RETRENCHMENT WE CANNOT AFFORD THE RISK OF UNFAVORABLE PUBLIC REACTION TO SALARIES SEEN AS EXCESSIVELY HIGH. THEREFORE, THE UNITED STATES WILL PROPOSE THAT ANY OVERALL INCREASE IN IBRD/IMF SALARIES BE LIMITED TO NO MORE THAN 5 PERCENT. WE WILL STRONGLY URGE A FREEZE ON ALL SALARIES ABOVE US \$30,000 NET-OF-TAXES (APPROXIMATELY \$47,000 GROSS) INCLUDING SALARIES OF EXECUTIVE DIRECTORS AND ALTERNATES. WE WILL ALSO URGE A TAPERED INCREASE ON SALARIES BELOW THE FREEZE LEVEL. I HOPE YOU WILL BE ABLE TO SUPPORT EITHER THIS PROPOSAL OR ONE ALONG THESE GENERAL LINES, INCLUDING AT LEAST A FREEZE AT THE HIGHER LEVELS WITH CONSIDERABLE

TAPERING BELOW THAT.

THE UNITED STATES BELIEVES THAT THE SALARY LEVELS OF THESE INSTITUTIONS SHOULD BEAR A REASONABLE RELATIONSHIP TO THE GOVERNMENTAL SALARY LEVELS OF MEMBER GOVERNMENTS IF THESE INSTITUTIONS ARE TO AVOID SERIOUS CRITICISM. AS THE RESULT OF PAST ADJUSTMENTS, EMPLOYEES IN THESE ORGANIZATIONS ENJOY SALARIES WHICH SUBSTANTIALLY EXCEED THOSE OF ALL MEMBER COUNTRY GOVERNMENTS. THE LOW VOLUNTARY RESIGNATION RATES AND EXTRAORDINARILY HIGH RATIOS OF APPLICANTS TO VACANCIES IN THESE INSTITUTIONS CONFIRM IN OUR VIEW THAT THE LARGE SALARY INCREASES WHICH HAVE BEEN PROPOSED ARE NOT REQUIRED TO MAINTAIN THE COMPETITIVENESS OR OPERATIONAL EFFICIENCY OF THESE INSTITUTIONS.

I HOPE THAT, BECAUSE OF YOUR CONCERN FOR THE FUTURE OF THESE IMPORTANT ORGANIZATIONS, YOU WILL SERIOUSLY CONSIDER OUR PROPOSAL. THE POLITICAL CONSEQUENCES OF SUBSTANTIAL SALARY INCREASES FOR STAFF OF ORGANIZATIONS INTIMATELY INVOLVED WITH THE ISSUES OF POVERTY, INCOME DISTRIBUTION, AND MONETARY STABILITY, COULD BE MOST DETRIMENTAL TO THESE ORGANIZATIONS  
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AND ULTIMATELY TO THEIR MEMBER GOVERNMENTS.

I WOULD APPRECIATE ANY OBSERVATIONS YOU MAY HAVE ON THIS MATTER AND MY EXECUTIVE DIRECTORS WILL BE IN CLOSE CONTACT WITH YOUR REPRESENTATIVES.

SINCERELY YOURS,

WILLIAM E. SIMON  
US GOVERNOR IBRD/IMF END UNCLASSIFIED UNQUOTE. KISSINGER

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